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Intermediate Credit for the Farmer

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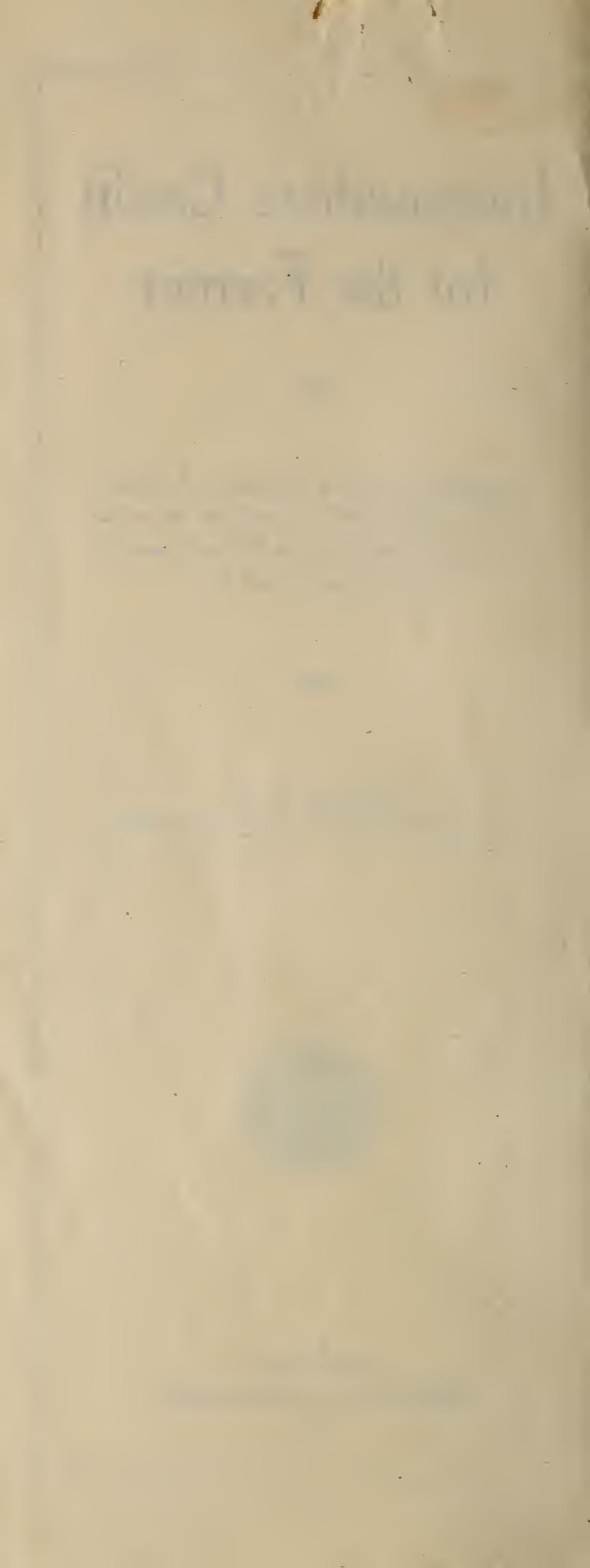
A pamphlet containing Questions and Answers
on Intermediate Credit as provided for in the
Agricultural Credits Act of 1923 and essential
facts showing the need for it



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INTERMEDIATE CREDIT FOR THE FARMER.

What is the agricultural credits act of 1923?

It is an act to provide intermediate credit for the farmer. It enables the farmer to borrow for production and marketing purposes, for periods running from six months to three years, depending upon the purpose for which the credit is used. It establishes 12 intermediate credit banks.

What is meant by intermediate credit?

Intermediate credit, as the phrase is commonly used, means credit granted to farmers for terms longer than those covered by ordinary bank loans, but shorter than those for which farm mortgage loans are usually made. It is based on personal and collateral security; that is to say, on the character and standing of the borrower, and on commodities or other personal property pledged to guarantee repayment of the money loaned. Farm credit other than mortgage credit, and running for terms of from six months to two or three years, is properly spoken of as intermediate credit.

What has been the source of intermediate credit in the past?

There has been no regular source of intermediate credit in the past. Our banking system has grown up primarily to serve industry and trade and has not been well adapted to the needs of agriculture. Farmers have consequently been obliged to seek intermediate credit by the makeshift plan of renewing short-term loans from bankers or merchants.

Why does the farmer need intermediate credit more than other producers?

Compared with that of business men, the turnover of the farmer is slow. Business men frequently turn their stock two or three times a year. Loans of short maturity therefore are suited to business needs. But crop growers, with few exceptions, have only one turnover a year. Loans obtained by them in the spring as a rule can not be repaid conveniently until crops are marketed. Even credit obtained later in the season may be needed longer than six months if the crop is to be marketed in an orderly way. Live-stock producers have a yet longer turnover than grain growers. Farmers need longer-term credit than business men owing to the nature of their work.

How are the Federal intermediate credit banks organized?

One such bank serves each Federal land-bank district. They are located in the same cities as the Federal land banks, and have the same officers and directors. They operate under the supervision of the Federal Farm Loan Board, just as do the Federal land banks.

What is the amount and source of the capital for the new banks?

Each intermediate credit bank is entitled to capital from the National Treasury up to \$5,000,000. The Secretary of the Treasury is authorized and directed by the agricultural credits act to subscribe the capital as it is called for by the directors of the intermediate credit banks, with the approval of the Farm Loan Board. Only \$1,000,000 each was asked for by the banks when they were organized. Several of them have since called for additional amounts.

Does this mean that the total amount of loans and discounts which the 12 banks may make can not exceed \$60,000,000?

No. Each bank may issue collateral trust debentures, or short-term bonds, based on discounted or purchased farmers' notes and other agricultural paper. Such debentures may be sold up to an amount not exceeding ten times the bank's paid-in capital and surplus. Proceeds of debenture sales are available for making loans. On the basis of the present total authorized capital of the 12 banks, their maximum loaning power is \$660,000,000.

How do the intermediate credit banks operate?

They discount farmers' credit paper for banks and other financing institutions and for cooperative associations. This means that these institutions may indorse and turn over their credit paper to the intermediate credit bank and obtain the money tied up in the loan for the further extension of credit to their patrons. The intermediate credit banks also make loans direct to cooperative associations of agricultural producers on the security of warehouse receipts or mortgages on live stock.

For what term may these banks make discounts or advances?

The minimum term is six months and the maximum term three years. For the present the Federal Farm Loan Board has limited the term of discount to nine months. Borrowers, whether these be farmers' organizations or banks, have the assurance, however, that renewals will be made where the need exists and the security warrants. Loans made by intermediate credit banks are not based on deposits which may be suddenly withdrawn, but on funds obtained from the sale of securities with a definite maturity.

At what rate are discounts and advances made by the intermediate credit banks?

Interest or discount rates charged may not exceed by more than 1 per cent the rate paid on the last debentures sold. An issue of debentures was recently sold at $4\frac{1}{2}$ per cent. Intermediate credit banks, therefore, can not now charge more than $5\frac{1}{2}$ per cent. No credit paper may be discounted for, or purchased from, any bank or other institution if the rate charged by that institution to individual borrowers is more than $1\frac{1}{2}$ per cent above the discount rate. At present, therefore, the intermediate credit banks can not discount any paper carrying an interest charge to the farmer of more than 7 per cent.

Can an individual farmer borrow direct from the intermediate credit banks?

No. If the banks should loan to the farmer direct, the cost of setting up machinery for this purpose would make interest rates too high. The banks serve wide districts and would find direct dealings with the individuals too expensive.

Must farmers necessarily obtain credit from the intermediate credit bank through local banks or other existing institutions?

No. In most States they can form agricultural credit corporations of their own to discount paper with the intermediate credit banks. Such corporations must have a capital of at least \$10,000. Intermediate credit banks help in forming such corporations. Some of them have prepared suggested articles of incorporation intended to comply with State laws in their districts.

Can persons other than farmers form agricultural credit corporations to obtain discounts from the new banks?

Yes. Bankers or business men who wish to help the farmers to obtain cheaper credit can form such corporations. In fact, any group can do so. Bankers in some cases may find it desirable to conduct such credit corporations in connection with their banks. Several of the kind have been organized.

Is it the intention of the agricultural credits act of 1923 that credit accommodation should be provided by new local agencies rather than by existing banks or other institutions?

The evident intent of the law is that existing credit machinery shall be used as far as possible. It is desirable or advisable to form new credit agencies only where the present ones are inadequate or do not take advantage of the new discount facilities. Improvement of existing credit agencies, rather than their destruction, is the object of the law.

Are these intermediate credit banks now in operation?

Yes. They were chartered and organized shortly after the enactment of the law, and have been in operation several months.

On what products stored and controlled by cooperative marketing associations may direct advances be obtained from these new banks?

The Federal Farm Loan Board has already approved the following commodities, when properly stored, as security for loans: Grain, cotton, wool, tobacco, peanuts, broom corn, beans (including soy beans), rice, alfalfa and red top clover seeds, hay, nuts, dried prunes, dried raisins, and canned fruits and vegetables. Other commodities will be added to the list when the board has determined whether or not in its opinion they can be stored so that warehouse receipts based on them will be good collateral.

Is the service of the new banks to be measured solely by the discounts and advances actually extended?

No. They are also valuable in that credit made available by them encourages private financial institutions to extend loans. Farmers' cooperative associations have often found commercial banks willing to give credit on very reasonable terms as soon as advances have been promised and approved by the intermediate credit banks. An association that has been deemed a safe risk by an intermediate credit bank has thereafter a better standing with private financiers.

How can additional information concerning the operation of these banks be obtained?

Information about loans and discounts, or the organization of agricultural credit corporations where such are needed, can be obtained from the intermediate credit bank in the district concerned.

Does the agricultural credits act of 1923 contain any other provisions for the improvement of intermediate credit to the farmer besides those dealing with the intermediate credit banks?

Yes. There are four other important provisions:

1. The Federal reserve act is amended by increasing the maximum term for which the reserve banks may discount agricultural and live-stock paper from six months to nine months.

2. The definition of agricultural paper is broadened to include loans to cooperative marketing associations for grading, processing, packing, preparing for market, or marketing of any agricultural products handled for members.

3. The capital needed to make a State bank eligible for admission to the Federal reserve system is reduced to 60 per cent of the amount required for national banks in cities of corresponding size to that in which the State bank is located. It is provided, however, that the State bank must agree to increase its capital within a reasonable time to the amount required of the national bank. Country banks that take advantage of this provision will greatly add to their ability to aid agriculture.

4. Privately financed and managed national agricultural credit corporations may be organized under Federal charter. Such corporations must have a capital of at least \$250,000 and will be supervised by the Comptroller of the Currency. Existing live-stock loan companies may reincorporate under the law.

Where are the intermediate credit banks located, and what States are served by each of them?

The Federal land bank and intermediate credit bank districts, group of States comprising each district, and location of each pair of banks are as follows:

District No.	States.	Location of Federal land bank and Federal intermediate credit bank.
1	Maine, Massachusetts, Vermont, New Hampshire, Rhode Island, Connecticut, New Jersey, and New York.	Springfield, Mass.
2	Pennsylvania, West Virginia, Maryland, Delaware, Virginia, and District of Columbia.	Baltimore, Md.
3	North Carolina, South Carolina, Georgia, and Florida.	Columbia, S. C.
4	Indiana, Ohio, Kentucky, and Tennessee.	Louisville, Ky.
5	Louisiana, Mississippi, and Alabama.....	New Orleans, La.
6	Illinois, Missouri, and Arkansas.....	St. Louis, Mo.
7	North Dakota, Minnesota, Wisconsin, and Michigan.	St. Paul, Minn.
8	Wyoming, Nebraska, South Dakota, and Iowa.	Omaha, Nebr.
9	New Mexico, Kansas, Colorado, and Oklahoma.	Wichita, Kans.
10	Texas.....	Houston, Tex.
11	California, Nevada, Utah, and Arizona....	Berkeley, Calif.
12	Idaho, Washington, Montana, and Oregon.	Spokane, Wash.

